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Vladimer Papava Questions Georgia's "Un-European" Economic Policy

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"Some of Georgian government's actions defy both economic theory and common sense," writes Georgia's prominent economist Vladimer Papava in a recent article published by the Economic Policy Research Foundation of Turkey (TEPAV), an independent think-tank founded in 2004. The author – a senior fellow at the Georgian Foundation for Strategic and International Studies (GFSIS), a former reformist Minister of Economy in 1994-2000 and a current member of the majority faction in the Georgian parliament, discusses Georgia's economic policy and comes to a number of interesting, if not alarming, conclusions.

The article, written in a stunningly straightforward and eloquently critical manner, questions the purported "European" orientation of Georgia's economic policy and questions/condemns certain economic steps taken by the post-Rose Revolution government. Possibly the most vocal but most constructively critical on economic issues among all of the Georgian parliamentarians, and especially among the members of the ruling faction National Movement-Democrats, Vladimer Papava has disapproved most of the initiatives and ideas introduced by Kakha Bendukidze, Georgia's state minister for reform coordination issues. For example, Papava voted against the establishment of Free Industrial Zones, and openly slammed Bendukidze for pondering a multi-currency system in Georgia. "This means Georgia could lose its own tools for macroeconomic stability," he said, adding, "fortunately, Bendukidze's idea was not implemented and the country's currency system was saved."

Papava has long been harshly critical of Bendukidze and remarked after the recent reshuffle of the government: "It is very unfortunate that State Minister Kakha Bendukidze has neither been dismissed nor resigned. His activity damages the interests of the country."

In the introductory part of the mentioned article Papava writes that if Georgia truly aspires to join European and Euro-Atlantic structures, we should know were the country is going economically. Responding to this question, the author gives his key message "if we consider the government's economic agenda, we see movement in three directions: north, nowhere and east." Hence, the main idea of Papava's article also has to do with the policies of the Georgian state minister, who has been closely affiliated with Russia.

Papava is especially concerned with what he calls "the government's affinity for Russian capital", something he believes drives Georgia towards the "north" with the possible consequence being Georgia's eventual inclusion into Russia's "liberal economic empire", first conceptualized by Anatoliy Chubays, who advocated for spreading Russia's energy and economic influence throughout the post-Soviet space via Russia's state-owned "strategic companies" in order to finally transform Russia's economic domination into political domination. Vladimer Papava looks at Georgia as a vital country over which Russia needs to take economic control in order to reach out to Azerbaijan, "given the fact that all of its strategic economic projects are linked with Georgia".

Papava negatively evaluates the sale of Georgia's electricity distribution system to RAO YeES, of Georgian gold and copper mining and processing companies, and of a Georgian private bank (United Georgian Bank) to Russian companies, mostly state-owned, and he sees the greatest danger in the efforts of Gazprom, Russia's gas giant, at gaining the gas pipeline between Armenia and Georgia. Though this plan of the Russian Federation was thwarted thanks to US intervention, Papava still remains skeptical: "Regrettably, it is evident that Georgia is being drawn into Russia's Liberal Empire".

One of the central claims of the article is that the Georgian economic model is incompatible with either of Europe's two dominant economic models, the Anglo-American and the German-Japanese. Even though the government claims it pursues liberalism in its economic policies, the author argues that its deregulation policies and indifference towards poverty and equality, existing in Georgia, do not come to terms with each other. "In Georgia, inequality is not the government's concern at all, whereas the alleviation of poverty has forcibly (under government pressure) become the headache of private charities and private entrepreneurs," Papava writes.

"Some of the Georgian government's actions defy both economic theory and common sense," this is how he assesses the 2006 presidential employment program financing internships in private business for 50,000 people. As a result of the programme, the USD 12.7 million spent amounted to "nothing but an a allowance for the unemployed", as he says, contributed to the growth of inflation. High inflation was one of the reasons for which the National Bank of Georgia came under criticism not only from Papava, but many other economists.

"Georgia has a serious problem with the protection of property rights," Papava agrees to other experts, but basically, among the criticisms regarding the government's institutional reforms, he mentions the abolition by the government of some important institutions in an attempt to curb corruption, a step he calls "fighting a headache by cutting off your head"; and he also disapproves subordination of the statistics department directly to the executive – the Ministry of Economic Development.

About statistics, he makes another point: namely, the government should be interested in statistics rather than be obsessed with international economic performance ratings, a trend he believes is a disease of "rating-o-mania". Under this, he means the government's excessive focus on the World Bank's "Doing Business" rating according to which Georgia has moved from the 112th place to the impressive 37th. But, Papava notes that if Georgia truly wants to be a European country, it should not be preoccupied with this rating in which such un-European countries as Singapore, New Zealand, US, Canada and Hong Kong take the leading places. Rather, to the author's mind, "the government should pay more attention to the Economist Intelligence Unit Quality of Life Index and the UNDP Human Development Index" where Georgia is not ranked that highly. Papava explains insignificance of the "Doing Business" rating for European integration by mentioning new EU member states occupying lower positions in the rating than Georgia but still are in the EU.

The author also refers to positive steps of the government. For example, he calls the new Labour Code revolutionary and commends the government for such measures as deregulation, cutting taxes and in overall increasing the governmental burden on business. However, such reforms are pushing Georgia towards the “east”, meaning they were embarked on in the Southeast Asian and Anglo-Pacific countries. Therefore, if that course continues, Georgia will have a longer way to go before it will knock on EU doors.

“I have an impression that, like Columbus, the Georgian government has not fully realized that it has started moving in the opposite direction of its goal," the author concludes. Though Lithuania and Estonia reached the EU after having gone the same eastern way, Papava states, basing on the experience of Ireland, Denmark and Great Britain, that “we may reach the European Union from the West and not from the East, which is a path that is obviously shorter for us…”